GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0231	**Title:**	Revise funding for trust land administration
Primary Sponsor:	Ripley, Rick	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$7,156,531	$7,231,613	$19,282,250	$10,648,114
Guarantee Fund	$7,083,383	$7,003,520	($4,695,664)	$3,932,490
School for the Deaf and Blind Trust	$26,849	$29,171	$32,015	$34,826
State Reform School Trust	$33,237	$35,696	$38,899	$42,070
Revenue:				
Guarantee Fund	$8,467,632	$8,426,610	($3,900,725)	$4,551,328
ComSch Perm Fund	$78,410	$77,810	$12,653,138	$4,430,210
School for the Deaf and Blind Trust	$26,849	$29,171	$32,015	$34,826
School for the Deaf and Blind Perm Fund	$40,796	$40,598	$41,613	$42,653
State Reform School Trust	$33,237	$35,696	$38,899	$42,070
State Reform School Perm Funds	$44,589	$44,372	$45,482	$46,619
University Trusts	$378,639	$380,658	$393,579	$406,654
University Trusts Permanent Fund	$65,683	$65,362	$66,996	$68,671
Veterans Home	$337	$335	$343	$351
Public Buildings Trust	$534,395	$531,795	$545,089	$558,717
Trust Land Administration Account	$4,638,092	$4,684,574	$4,801,689	$4,555,293
Net Impact-General Fund Balance:	($7,156,531)	($7,231,613)	($19,282,250)	($10,648,114)

Description of fiscal Impact:

House Bill 231 impacts the Department of Natural Resources and Conservation (DNRC) by creating statutory appropriations for administrative costs for managing trust lands and distributing all revenues to the trust beneficiaries or to their respective permanent funds. DNRC currently utilizes a portion of the revenues generated by managing trust lands for funding administration costs. HB 231 changes the funding source from state special revenue to the general fund, thereby decreasing the expenditures made by the trust beneficiaries and increasing costs of the general fund. However, increased distributable revenues for the common schools trust is deposited in the guarantee account, which will mitigate some of the general fund monies needed for HB 231.

FISCAL ANALYSIS

Assumptions:

1. General Fund dollars will be deposited into the Trust Administration Account (TAC), replacing funding from Resource Development, Trust Administration, Timber Sales, Commercial Leases, Land Bank, and Recreational Use Account.
2. It is assumed that the accounts being closed under this bill will have a zero balance when they are closed and that there will be no impact to the general fund.

Direct Impact of Funding for HB 231: Expenditures and Funding of Expenditures

3. Under this bill, the general fund dollars deposited into TAC equal 15% of the total gross revenue earned by the state trust lands in the previous biennium. For the purposes of this fiscal note, it is assumed that the funds are appropriated equally across years in the biennium and gross revenue is all income earned on the state trust lands. Estimates made from DNRC data suggest that $14.3 million will be allocated to TAC in FY 2008 and FY 2009, and 2.5% inflation factor increases the FY 2010 and FY 2011 allocation to $14.658 million.
4. Section 8 (2)(b) addresses the DNRC payment from the statutory appropriation at the end of each year to BOI for administering the investment of the Trust and Legacy Fund. The BOI fees are transferred from the TAC and are forecast to be $109,491 for FY 2008 and FY 2009. A 2.5% inflation factor was applied to the estimate of BOI expenditures for FY 2010 and FY 2011.

Direct Impact of Funding for HB 231: Trust Administration Funding

5. The administration costs for the trust lands were based on the amounts included for FY 2008 and FY 2009 in the Executive Budget for DNRC from the six accounts in Assumption 1 (not including funding for potential pay plan increases) with a 2.5% inflation factor applied in FY 2010 and FY 2011. Projected administration costs are $9.662 million in FY 2008, $9.615 million in FY 2009, $9.856 million in FY 2010, and $10.102 million in FY 2011. After the administration costs are taken out of the TAC transfer, the remaining revenue is to remain in TAC. As shown in the Fiscal Impact table, about $4.5 million per year is projected to stay in the TAC account.

Direct Impact of Funding for HB 231: Trust Land Revenue Increase

6. The proposed bill will cause an increase in revenue to the trust beneficiaries because under the current law, administrative costs are funded from a portion of distributable and non distributable revenue generated on behalf of the trust beneficiaries.
7. The trusts will receive increased revenue by the projected amount that would have paid administrative costs. The increased revenue to each trust is shown in the Fiscal Impact table under the Direct Impact section under Trust Land Revenue Increase.

Indirect Impact of Funding for HB 231

8. Though this bill requires the general fund to cover the trust land expenditures, distributable revenue from the common school trust, the school for the deaf and blind trust and the state reform school is the first funding of beneficiary programs.

9. Increases in common school distributable revenue, other than timber sales (see Assumption 11), offsets the general fund requirement to fund public schools. This creates a reduction in the amount of general fund to support school BASE aid.
10. This fiscal note assumes that the distributable revenue from the school for the deaf and blind and the state reform school also offsets the necessary general fund HB 2. This is broken down by trust in the in the Indirect Impact Section of the Fiscal Impact table.
11. Revenue from timber harvests over 18 mmbf on common school land goes directly to the schools for technology acquisition. The administration costs associated with timber harvest over 18 mmbf do not impact the general fund, so the guarantee account receives this revenue. The anticipated timber sale revenue to the general fund is a $1.388 million in FY 2008, $1.431 million in FY 2009, $1.467 million FY 2010, and $1.504 million in FY 2011.

HB 231 Impact on SB 495 from the 2001 Session

12. The common school trust receives revenues generated from mineral royalties due to SB 495 from the 2001 Session. The royalties were purchased in 2001 with a loan from the permanent coal trust. The $46 million loan purchased $138.9 million in royalties which was expected to be received over 30 years. Mineral royalty revenue has been much higher than expected, and the principal and interest of the loan are expected to be paid off in FY 2008. The guarantee account will continue to receive mineral royalties until the $138.9 million is met. Current estimates suggest that after the loan is paid off, the guarantee account will receive $52 million through the end of FY 2010. When the 138.9 million in mineral royalties has been received, the revenue will be allocated to the common school permanent fund.
13. When the principle and interest of the loan are paid off and the revenue flows to the guarantee account, mineral royalty revenue from the common school trust land will fund around $4 million of TAC. This is shown in the following table under Current Law, Royalties to the Permanent Fund in FY 2011.
14. Under the proposed bill, the revenue from SB 495 (2001 session) coal loan allocated to the guarantee account ($52 million) will occur faster than under current law because trust administration costs will no longer be taken out of mineral royalty revenue flowing to the guarantee account. The following table shows the mineral royalty revenue allocated to the common school trust under current law and HB 231.

HB 231 and Common School Mineral Royalty Revenue ($ millions)	FY 2008	FY 2009	FY 2010	FY 2011
Mineral Royalty Revenue	$29.323	$27.363	$26.526	$26.406
Current Law				
Mineral Royalties to Coal Loan	$7.492	$0.000	$0.000	$0.000
Mineral Royalties to Trust Administration	$4.249	$4.189	$4.100	$4.302
Mineral Royalties to Guarantee Account	$17.582	$23.174	$11.604	$0.000
Royalties to Permanent Fund	$0.000	$0.000	$10.822	$22.104
Total	$29.323	$27.363	$26.526	$26.406
HB 231				
Mineral Royalties to Coal Loan	$7.492	$0.000	$0.000	$0.000
Mineral Royalties to Trust Administration	$0.000	$0.000	$0.000	$0.000
Mineral Royalties to Guarantee Account	$21.831	$27.363	$3.166	$0.000
Royalties to Permanent Fund	$0.000	$0.000	$23.360	$26.406
Total	$29.323	$27.363	$26.526	$26.406
Change from Current Law to HB 231				
Mineral Royalties to Coal Loan	$0.000	$0.000	$0.000	$0.000
Mineral Royalties to Trust Administration	($4.249)	($4.189)	($4.100)	($4.302)
Mineral Royalties to Guarantee Account	**$4.249**	**$4.189**	**($8.438)**	**$0.000**
Royalties to Permanent Fund	**$0.000**	**$0.000**	**$12.538**	**$4.302**

15. The table also shows the impact of HB 231 when compared to current law. There is an increase of around $4 million to the guarantee account in FY 2008 and FY 2009 and a decrease of $8.4 million in FY 2010. The permanent fund has an increase of $12.5 million in FY 2010 and an increase of $4.3 million in FY 2011.
16. Under HB 231, the early payoff of the coal loan causes a reduction in revenue to the guarantee account in FY 2010. This reduction occurs because the permanent fund receives $12.5 million that would have otherwise gone to the guarantee fund in FY 2010. The net impact to the guarantee account is a decrease of $3.9 million which is the revenue increase of $8.637 million less the $12.5 million in the permanent fund. This revenue loss to the guarantee fund will be replaced with general fund, and this is shown in the Indirect Impact section of the Fiscal Impact table.
17. Under current law, the mineral royalty revenue would not be allocated to guarantee account in FY 2011 as the $138.9 million of royalties from SB 495 in the 2001 session would be received.
18. In FY 2011, with the conclusion of the impacts from SB 495 from the 2001 session, the long-term annual impact of HB 231 is realized. The general fund replaces ongoing expenditures of about $4.3 million from mineral royalties.

Interest Revenues

19. The trust and legacy fund is the permanent fund for the non distributable revenue from the trust land. The trust and legacy fund earns 100% distributable interest revenue for most trusts. The common school trust interest revenue is 95% distributable, and the other 5% is deposited back into the permanent fund. Interest revenue was projected using the HJR 2 projected interest rates for FY 2008 and FY 2009 and OBPP projected interest rates for FY 2010 and FY 2011. The Fiscal Impact table shows the amount of additional interest revenue that is earned by each trust under this bill.

Net Impact to Fund Balance

20. The net impact HB 231 on the individual trusts in shown at the bottom of The Fiscal Impact table. The net effect to the guarantee account is around $1 million per year. This is the amount from the administration of timber sales that do not refund the general fund. Otherwise increases to the guarantee account offset the decreases in the general fund. The distributable revenue from the school for the deaf and blind trust and the state reform school offset the expenditures from the general fund, making the net impact zero for those accounts. The permanent funds for the common schools trust, the school for the deaf and blind trust and the state reform school will have increased revenue from the direct effect of this bill and the increased interest revenue generated by the permanent funds. The university system trusts also have increased revenue from the bill and from increased interest. The university trusts, the public buildings trust and the veteran's home trust all have increased revenue from the direct effect of this bill.
21. The TAC account has a net impact of increased revenue due to the 15% gross revenue allocation discussed in Assumption 4.
22. The net impact of HB 231 on the general fund is a yearly loss of $7.157 million in FY 2008, $7.232 million in FY 2009, $19.282 million in FY 2010, and $10.648 million in FY 2011. The net impacts on the general fund were calculated by taking the general fund expenditures less the offset of the direct revenue and interest revenue from the common school trust, the school for the deaf and blind trust and the state reform school.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Direct Impact of funding for HB 231				
Expenditures:				
Trust Administration Account	$14,300,000	$14,300,000	$14,657,500	$14,657,500
Board of Investments	$109,491	$109,491	$112,228	$115,034
TOTAL Expenditures	$14,409,491	$14,409,491	$14,769,728	$14,772,534
Funding of Expenditures:				
General Fund Transfer (01)	$14,300,000	$14,300,000	$14,657,500	$14,657,500
Trust Administration Account Transfer to BOI (02)	$109,491	$109,491	$112,228	$115,034
TOTAL Transfers	$14,409,491	$14,409,491	$14,769,728	$14,772,534
Trust Administration Revenue Increase				
DNRC (02) TAC Transfer from General Fund	$14,300,000	$14,300,000	$14,657,500	$14,657,500
DNRC (02) from Trust Land Revenue	($9,661,908)	($9,615,426)	($9,855,811)	($10,102,207)
TOTAL Trust Administration Revenue	$4,638,092	$4,684,574	$4,801,689	$4,555,293
Trust Land Revenue Increase				
Guarantee Fund ComSch (02)	$8,467,632	$8,426,610	($3,900,725)	$4,551,328
ComSch Perm Fund (09)	$78,190	$77,810	$12,617,755	$4,383,628
School for the Deaf and Blind Trust (02)	$24,610	$24,585	$25,200	$25,830
School for the Deaf and Blind Perm Fund (09)	$40,796	$40,598	$41,613	$42,653
State Reform School Trust (02)	$30,730	$30,684	$31,451	$32,238
State Reform School Perm Funds (09)	$44,589	$44,372	$45,482	$46,619
University Trusts (71)	$374,946	$373,275	$382,607	$392,172
University Trusts (09)	$65,683	$65,362	$66,996	$68,671
Veterans Home (02)	$337	$335	$343	$351
Public Buildings Trust (05)	$534,395	$531,795	$545,089	$558,717
TOTAL Trust Land Revenue Increase	$9,661,908	$9,615,426	$9,855,811	$10,102,207
Indirect Impact of funding for HB 231				
General Fund funding for BASE aid (01)	($7,079,207)	($6,995,174)	$5,367,947	($3,047,426)
Guarantee Fund funding for BASE aid (02)	$7,079,207	$6,995,174	($5,367,947)	$3,047,426
General Fund funding for School for Deaf/Blind (01	($24,610)	($24,585)	($25,200)	($25,830)
School for the Deaf and Blind Trust (02)	$24,610	$24,585	$25,200	$25,830
General Fund funding for State Reform School (01)	($30,730)	($30,684)	($31,451)	($32,238)
State Reform School Trust (02)	$30,730	$30,684	$31,451	$32,238
TOTAL Indirect Impact	$0	$0	$0	$0
Interest Revenues:				
General Fund (01)	$0	$0	$0	$0
Guarantee Fund ComSch (02)	$4,176	$8,346	$672,283	$885,064
ComSch Perm Fund (09)	$220	$439	$35,383	$46,582
School for the Deaf and Blind Trust (02)	$2,239	$4,586	$6,815	$8,996
State Reform School Trust (02)	$2,507	$5,012	$7,448	$9,832
University Trusts (71)	$3,693	$7,383	$10,972	$14,482
TOTAL Interest Revenues	$12,835	$25,766	$732,901	$964,956

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	($7,156,531)	($7,231,613)	($19,282,250)	($10,648,114)
Guarantee Fund ComSch (02)	$1,388,425	$1,431,436	$1,467,222	$1,503,902
ComSch Perm Fund (09)	$78,410	$78,249	$12,653,138	$4,430,210
School for the Deaf and Blind Trust (02)	$0	$0	$0	$0
School for the Deaf and Blind Perm Fund (09)	$40,796	$40,598	$41,613	$42,653
State Reform School Trust (02)	$0	$0	$0	$0
State Reform School Perm Funds (09)	$44,589	$44,372	$45,482	$46,619
University Trusts (71)	$378,639	$380,658	$393,579	$406,654
University Trusts (09)	$65,683	$65,362	$66,996	$68,671
Veterans Home (02)	$337	$335	$343	$351
Public Buildings Trust (05)	$534,395	$531,795	$545,089	$558,717
Trust Administration Account (02)	$4,638,092	$4,684,574	$4,801,689	$4,555,293
Net Impact to General Fund	($7,156,531)	($7,231,613)	($19,282,250)	($10,648,114)

Technical Notes:

1. HB 231 conflicts with SB 75, which limits DNRC funding of administrative costs for trust lands to 25% of distributable revenues (state special revenue source).
2. No mechanism is created in this bill to limit the transfers from the general fund to TAC. A fund balance is expected to grow in TAC.
3. The language in Section 8 of this bill appears to create a statutory appropriation from the general fund to a state special revenue account. It is unclear if the state special fund is statutorily appropriated.
4. This bill requires that 15% of gross revenue from trust lands to be deposited in TAC, but it does not define gross revenues. For the purposes of this fiscal note, it is assumed that gross revenue is all income earned by the state trust lands.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*